

**MISSOURI PUBLIC ENTITY
RISK MANAGEMENT FUND**

FINANCIAL STATEMENTS WITH
MANAGEMENT'S DISCUSSION AND ANALYSIS
AND INDEPENDENT AUDITOR'S REPORT

DECEMBER 31, 2015

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Independent Auditor's Report

Board of Trustees
Missouri Public Entity Risk Management Fund
Jefferson City, Missouri

Report on the Financial Statements

We have audited the accompanying basic financial statements of Missouri Public Entity Risk Management Fund ("MOPERM"), which comprise the statement of net position as of December 31, 2015, and the related statement of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with generally accepted accounting principles in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to error or fraud.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with generally accepted auditing standards in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of MOPERM as of December 31, 2015, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Effective January 1, 2015 the Plan implemented Governmental Accounting Standards Board (GASB) No. 68, *Accounting and Financial Reporting for Pensions*. Implementation of GASB No. 68 is disclosed in the Notes to Financial Statements. Our opinion is not modified with respect to this matter.

Required Supplemental Information

United States of America generally accepted accounting principles require management's discussion and analysis and the required supplementary information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with generally accepted auditing standards in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Brown Smith Wallace, LLP

St. Louis, Missouri
March 15, 2016

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS

(See Independent Auditor's Reports)

Management of the Missouri Public Entity Risk Management Fund ("MOPERM") offers this narrative overview and analysis of the financial activities of MOPERM for the year ended December 31, 2015. We encourage readers to consider the information presented here in conjunction with MOPERM's financial statements and notes to the financial statements to enhance their understanding of MOPERM's financial performance.

Fund Accounting

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. MOPERM, a corporate and political body created by the Missouri General Assembly, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. MOPERM is considered to be a related party but not a component unit of the State of Missouri. There are three categories available for governmental accounting: governmental funds, proprietary funds, and fiduciary funds. MOPERM's funds are considered proprietary funds.

Proprietary Funds

Proprietary funds account for governmental operations that are designed to be self-supporting from fees charged to consumers for the provision of goods and services or where the government has decided that the periodic determination of revenues, expenses, and net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The accounting and financial reporting practices of proprietary funds are similar to those used for business enterprises and focus on capital maintenance and the flow of economic resources through the use of accrual accounting. Of the two types of proprietary funds, MOPERM maintains one type: enterprise fund. MOPERM's purpose is to provide liability and property coverage to participating public entities, their officials, and employees.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to MOPERM's financial statements. Typically, government financial statements would be presented as three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. However, as MOPERM uses only proprietary funds, which present financial statement information in the same manner as government-wide financial statements only with more detail; we do not present government-wide financial statements as the information would be repetitive.

Overview of the Financial Statements (Continued)

The financial statements, in addition to management's discussion and analysis, are comprised of the statement of net position; the statement of revenues, expenses and changes in net position; the statement of cash flows, and the notes to financial statements. The financial statements are prepared on the accrual basis in accordance with U.S. generally accepted accounting principles applicable to governmental enterprise funds.

The statement of net position presents MOPERM's financial position as of year-end. Information is displayed on assets and liabilities, with the difference between the two reported as net position. The net position of MOPERM reflect the resources available as of the end of the year to pay claims of participants when due. Over time, increases and decreases in net position measure whether MOPERM's financial position is improving or deteriorating.

The statement of revenues, expenses and changes in net position presents information detailing the revenues and expenses that resulted in the change in net position that occurred during the current year. All revenues and expenses are reported on an accrual basis. This means that the revenue or expense is recognized as soon as the underlying event giving rise to the change occurs, regardless of when the actual cash is received or paid. Thus, revenues and expenses are reported in this statement for transactions that will not result in cash flows until future periods. For example, contributions due from a public entity, even though not yet paid by year end, will be reflected as revenue. Likewise, claims that occurred during the year under self-insured plans will be reflected as an expense, whether or not they have been paid as of the end of the year.

The statement of cash flows presents the cash provided and used by MOPERM categorized by operating activities, noncapital financing activities, capital and related financing activities, and investing activities. It reconciles the beginning and end of year cash balances contained in the statement of net position. The effects of accrual accounting and noncash activities, such as depreciation, are adjusted to supplement the presentation in the statements of revenues, expenses and changes in net position.

The notes to financial statements follow the basic financial statements and provide additional information that is essential to a full understanding of the data provided in the financial statements.

In addition to the financial statements and accompanying notes, MOPERM presents certain required supplementary information required under governmental accounting standards.

Financial Analysis

The following tables present the summarized financial position and results of operations for the years ended December 31, 2015, 2014, and 2013. Additional details are available in the accompanying financial statements.

	<u>2015</u>	<u>2014</u>	<u>2013</u>
ASSETS			
Cash and investments	\$ 124,313,403	\$ 123,328,989	\$ 119,380,867
Receivables	539,503	468,421	480,625
Capital assets	1,011,416	1,134,681	1,281,787
Deferred outflow of resources	370,208	-	-
Other	17,765	8,750	18,164
Total Assets and Deferred Outflow of Resources	\$ 126,252,295	\$ 124,940,841	\$ 121,161,443
LIABILITIES			
Loss and loss adjustment expense	\$ 44,808,742	\$ 46,295,926	\$ 48,828,574
Net pension liability	1,138,251	-	-
Deferred inflow of resources	205,289	-	-
Other	11,586,793	12,942,867	12,514,874
Total Liabilities and Deferred Inflow of Resources	57,739,075	59,238,793	61,343,448
NET POSITION			
Net investment in capital assets	1,011,416	1,134,681	1,281,787
Unrestricted	67,501,804	64,567,367	58,536,208
Total net position	68,513,220	65,702,048	59,817,995
Total liabilities, deferred inflow of resources and net position	\$ 126,252,295	\$ 124,940,841	\$ 121,161,443

MOPERM was established to offer liability protection to participating public entities, their officials, and employees. MOPERM has been successfully providing member entities with broad coverages at stable and economical rates. In 2003, MOPERM's Board of Trustees approved the offering of property insurance coverage to its members. MOPERM increased its overall membership by 23, 27, and 12 members in 2015, 2014, and 2013, respectively. With the net increase in members, MOPERM picked up about \$535,000 in contribution in 2015 as compared to an increase of \$1.16 million in 2014 and \$1.7 million in 2013. Total assets have increased during 2015, 2014, and 2013 by approximately \$1.3 million, \$4 million, and \$3 million, respectively. Cash and investments increased the past three years: \$1.0 million in 2015, \$3.9 million in 2014, and \$3.1 million in 2013. Capital assets have decreased in the past three years due to the disposal of old software and numerous old file cabinets that were sold. Receivables increased in 2015 by \$71,000 and decreased in 2014 by \$12,000, mainly as a result of the change in accrued interest receivable on investments. In 2013, receivables increased by approximately \$15,000 with the majority of the increase due to the increase in accrued interest receivable and deductible billing receivables.

Financial Analysis (Continued)

- With the adoption of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, an amendment to GASB Statement No. 27, expected deferred outflows of resources of \$370,208 were recorded for the fiscal year ended December 31, 2015. Deferred inflow of resources of \$205,289 presented differences between expected and actual experiences on investment earnings and changes in assumptions. Net pension liability of \$1,138,251 presented MOPERM's amount of pension liability through MOSERS. MOPERM's initial year of adoption of GASB 68 was December 31, 2015. There was no similar activity in the prior years.
- Total liabilities decreased by \$2.8 million in 2015 and by \$2 million in 2014 with the biggest decrease in loss and loss adjustment expenses (as a result of re-estimation of IBNR). In addition, in 2015 there was about \$1 million less of contributions collected in advance. Total liabilities increased by \$3.4 million in 2013 with the most significant increases in contributions collected in advance and the retro return reserve refund payable. MOPERM reserves 75% of annual liability contributions to pay claims. This percentage conservatively reflects past claims history. This reserve is reviewed annually by an independent actuary. MOPERM has no long-term debt.
- The change in total net position for 2015 and 2014 increased by approximately \$4 million and \$6 million, respectively. In 2013, total net position decreased by approximately \$400,000. Operating income fluctuates year to year but remains relatively stable. The main factor affecting the change in net position is the unrealized gain and loss on investments. Since its inception, MOPERM has refunded approximately \$11 million of contributions to the participating members. MOPERM's Board of Trustees declared a refund in 2015, 2014, and 2013 for \$1,062,344, \$1,284,579, and \$1,106,980, respectively.

	<u>2015</u>	<u>2014</u>	<u>2013</u>
REVENUES			
Contributions	\$ 20,062,024	\$ 19,527,205	\$ 18,365,214
Investment income	1,929,309	2,252,346	2,037,141
Other income (expense)	<u>65</u>	<u>539</u>	<u>12</u>
Total operating revenues	21,991,398	21,780,090	20,402,367
EXPENSES			
Loss and loss adjustment expense	12,179,497	12,147,539	10,703,634
Excess insurance premiums	1,916,934	1,852,432	1,744,482
General and administrative	<u>3,051,943</u>	<u>2,962,782</u>	<u>2,669,851</u>
Total operating expenses	<u>17,148,374</u>	<u>16,962,753</u>	<u>15,117,967</u>
Operating income	4,843,024	4,817,337	5,284,400
Nonoperating revenue (expenses):			
Unrealized gain (loss) on investments	<u>(55,064)</u>	<u>2,334,164</u>	<u>(4,600,409)</u>
Changes in net position	4,787,960	7,151,501	683,991
Total net position beginning of year	<u>64,742,319</u>	<u>59,817,995</u>	<u>60,225,266</u>
Refunds to members, net refunds returned	<u>(1,017,059)</u>	<u>(1,267,448)</u>	<u>(1,091,262)</u>
Total net position, end of year	<u>\$ 68,513,220</u>	<u>\$ 65,702,048</u>	<u>\$ 59,817,995</u>

Financial Analysis (Continued)

- Contributions increased by \$535,000 in 2015, with the majority of the increase to property contributions of \$375,000. MOPERM added 23 new members to the fund. The base rates remained relatively the same. There was only a slight decrease in property base rates. In 2014, liability contribution increased by \$627,000 and property contribution increased by \$535,000. There were 27 new members who joined the fund in 2014. There was an increase in contribution earned in 2013 of approximately \$1.7 million. Liability and property contributions increased in 2013 by \$961,000 and \$742,000, respectively. This increase was the result of new members and a rate increase to base rates for both the liability and property programs.
- In June 2015, MOPERM's Board of Trustees amended the existing investment policy to include a multi-asset class portfolio permitting investments in equities. Six million of the fixed income surplus asset class was transferred to the multi-asset class portfolio in July, leaving \$107 million in the fixed income asset classes. In 2014, MOPERM contracted with a new investment advisor. The advisor suggested allocating the funds into three asset classes and recommended investing those classes in instruments according to the maximum sector allocation, maturity, and credit quality limits set for each asset class. This transition took place in October 2014 with \$112 million invested between the three asset classes. In 2013, MOPERM invested approximately \$112 million primarily in U.S. government agency securities with final maturities of seven years or less, U.S. government guaranteed mortgages, and collateralized mortgage obligations. Investment income consists of interest income, amortization of premium and discounts, and realized gains and losses on securities. In 2015, investment income decreased by \$323,000 and MOPERM ended the year with a \$55,000 unrealized loss. In 2014, investment income increased by \$215,000 and MOPERM ended the year with a \$2.3 million unrealized gain on investments. In 2013, investment income decreased by approximately \$610,000 due to the volatile markets and lower interest rates on new purchases of investment in the portfolio. Because of the changes in the investment market, MOPERM experienced an unrealized loss on investments for 2013 of \$4.6 million.
- There was a slight increase in loss and loss adjustment expenses in 2015. In 2014, loss and loss adjustment expense increased by \$1.4 million. Loss and loss expenses paid for 2015 was about \$1 million less than losses paid in 2014. In 2014, loss and loss expense paid was approximately \$3.9 million more than 2013. There were several large claims paid during 2014 and several new large claims reserved. Loss and loss adjustment expenses increased by approximately \$405,000 in 2013. Total loss and loss adjustment expenses paid in 2013 decreased by approximately \$1.7 million. The increases and decreases in loss and loss adjustment expenses consisted of actual paid claims and the change in case and incurred but not reported reserves.
- Excess insurance premiums increased by \$64,500, \$108,000 and \$105,000 in 2015, 2014, and 2013, respectively. Excess rates decreased slightly in the past three years, but the property membership increased, increasing the amount of total insured value. The excess insurance ceded premium for property increases/decreases as members are added, non-renewed, and/or cancelled.

Financial Analysis (Continued)

- Effective for the year ended December 31, 2015, MOPERM adopted GASB 68, *Accounting and Financial Reporting for Pensions*, an amendment to GASB Statement 27, beginning net position was adjusted by \$959,730 for the net pension liability and the beginning of fiscal year 2015.
- General and administrative expenses approximated 15.2% of total contributions earned for 2015 and 2014, respectively. Commission expense comprises approximately 50% of total general and administrative expenses.

Financial Summary

In 2015, MOPERM had an increase in its overall membership and a slight increase of \$535,000 in contributions. MOPERM had no change to the liability base rates and a slight decrease to the property base rates. There were a total of 935 entities that contributed to the pool in 2015 compared to 906 participating members in 2014. MOPERM wrote approximately 52% of the business that was quoted (about a 10% increase over the past three years), and most of the entities that declined MOPERM's quote chose to renew with their current carriers.

MOPERM had net income of \$4.8 million for 2015 and paid a refund of retro return reserves in April 2015 of approximately \$1.2 million. The Board of Trustees declared another refund of approximately \$1 million in 2015 to be paid in April 2016. General and administrative expenses remained about the same in 2015. Total net position increased by approximately \$2.8 million in 2015, totaling approximately \$69 million at December 31, 2015.

GASB No. 68 was implemented December 31, 2015, which added deferred outflows, deferred inflows and a \$1.1 million net pension liability to MOPERM's financial statements.

Economic Environment and Next Year's Budget and Rates

Since 1987, MOPERM has been a competitive alternative for local government agencies seeking to manage rising coverage costs against growing exposures and tight budgets. Rates are analyzed by an actuary each year and rate recommendations are made to management. Management analyzes the actuary's rate recommendations and suggests rate changes based on actual loss experience and the current insurance market.

The 2016 estimated contribution remained consistent with a slight increase compared to the final 2014 contribution amount. The increase was made with the anticipation of retaining most of our current members and adding new members to make up for any contributions lost from non-renewals. There was a 3.2% base rate increase for liability and a slight decrease in property base rates. Total loss and loss adjustment expenses are budgeted to increase approximately 7% in 2016. General and administrative expenses are budgeted for a 3% increase as well. For 2016, there is a decrease in property excess rates with a slight decrease to MOPERM's base rates. The total of general and administrative expenses and excess insurance premiums are approximately 25% of total budgeted contribution. The loss and loss adjustment expenses percentage remains constant at approximately 75% of budgeted liability contribution each year.

Contacting MOPERM's Financial Management

This financial report is designed to provide our members and the public with a general overview of MOPERM's finances and to demonstrate MOPERM's accountability for the contribution it receives. If you have questions about this report or need additional financial information, contact the Fiscal Manager, Cathy Schulte, at P.O. Box 7110, Jefferson City, MO 65102, (573)751-1266 ext. 114 or e-mail Cathy-Schulte@moperm.com.

Basic Financial Statements

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

Statement of Net Position

December 31, 2015

ASSETS

Current Assets

Cash and cash equivalents	\$ 12,426,575
Short-term investments, at fair value	5,492,884
Investments in trading securities, at fair value	106,393,944
Deposits and accounts receivable other than contributions	97,214
Accrued interest receivable	440,200
Contributions in the course of collection	2,089
Prepaid expenses	17,765
Total Current Assets	124,870,671

Noncurrent Assets

Capital assets (net of accumulated depreciation of \$993,200)	1,011,416
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Deferred Outflow of Resources

TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES	\$ 126,252,295
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LIABILITIES AND NET POSITION

Current Liabilities

Advance contributions	\$ 10,322,727
Retro return reserve refunds payable	1,062,344
Accounts payable and accrued expense	201,722
Total Current Liabilities	11,586,793

Noncurrent Liabilities

Loss and loss adjustment expenses reserves	44,808,742
Net pension liability	1,138,251
Total Noncurrent Liabilities	45,946,993

Deferred Inflow of Resources

205,289

TOTAL LIABILITIES AND DEFERRED INFLOW OF RESOURCES	57,739,075
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Net Position

Net investment in capital assets	1,011,416
Unrestricted	67,501,804
Total Net Position	68,513,220

TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES AND NET POSITION	\$ 126,252,295
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The accompanying notes are an integral part of these financial statements.

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

Statement of Revenues, Expenses and Changes in Net Position Year ended December 31, 2015

Revenues	
Contributions	\$ 20,062,024
Investment income	1,929,309
Other income	65
Total operating revenues	<u>21,991,398</u>
Expenses	
Losses and loss adjustment expenses	12,179,497
Excess insurance premiums	1,916,934
General and administrative	3,051,943
Total operating expenses	<u>17,148,374</u>
Operating income	4,843,024
Nonoperating expenses	
Unrealized loss on investments	<u>(55,064)</u>
Change in net position	4,787,960
Total net position, beginning of year, adjusted	64,742,319
Refunds to members, net of refunds returned	<u>(1,017,059)</u>
Total net position, end of year	<u>\$ 68,513,220</u>

The accompanying notes are an integral part of these financial statements.

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

Statement of Cash Flows

Year ended December 31, 2015

Cash flows from operating activities:	
Contributions collected	\$ 18,989,845
Loss and loss adjustment expenses paid	(13,652,118)
Payments to suppliers and excess insurer	(4,213,150)
Payments to employees	(667,780)
Investment income received	2,251,428
Other income	<u>64</u>
Net cash provided by operating activities	<u>2,708,289</u>
Cash flows used in non-capital financing activities:	
Refunds paid to members	(1,239,294)
Cash flows used in capital and related financing activities:	
Purchases of capital assets	(19,213)
Cash flows from investing activities:	
Proceeds from investments	75,686,849
Purchase of investments	<u>(76,967,196)</u>
Net cash used in investing activities	<u>(1,280,347)</u>
Change in cash and cash equivalents	169,435
Cash and cash equivalents, beginning of year	<u>12,257,140</u>
Cash and cash equivalents, end of year	<u>\$ 12,426,575</u>
Reconciliation of net operating income to net cash provided by operating activities:	
Net operating income	<u>\$ 4,843,024</u>
Adjustments to reconcile net operating income to net cash provided by operating activities:	
Depreciation and amortization	142,478
Pension expense, net of contributions	13,603
Accretion of discounts and amortization of premiums, net	400,673
Realized loss on investments	9,631
Changes in certain assets and liabilities:	
Decrease in deposits and accounts receivable other than contributions	14,564
Increase in accrued interest receivable	(88,186)
Decrease in contributions in course of collection	2,540
Increase in prepaid expenses	(9,015)
Decrease in loss and loss adjustment expense reserves	(1,487,184)
Decrease in advance contributions	(1,074,719)
Decrease in accounts payable and accrued expenses	<u>(59,120)</u>
Net adjustments	<u>(2,134,735)</u>
Net cash provided by operating activities	<u>\$ 2,708,289</u>
Schedule of noncash investing, capital, and financing activities:	
Decrease in fair value of investments	<u>\$ (55,064)</u>

The accompanying notes are an integral part of these financial statements.

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

Notes to Financial Statements

December 31, 2015

Note A – Reporting Entity

The Missouri Public Entity Risk Management Fund (“MOPERM”) is a corporate and political body created by the Missouri General Assembly and signed into law on June 20, 1986. MOPERM became operational January 1, 1987. Although the State of Missouri is responsible for the employment of MOPERM’s employees and appointing some of the members of the Board of Trustees, the State’s accountability does not extend beyond these appointments. Accordingly, MOPERM is considered a related organization of the State of Missouri but is not considered a component unit.

The purpose of MOPERM, as established in Chapter 537.700 RSMo 1986 and in the bylaws, is to provide liability protection to participating public entities, their officials and employees. Effective July 1, 2003, MOPERM added property coverage to its services offered to such participating members. MOPERM had a total of 935 contributors, including cities, counties, healthcare entities and school districts, as of December 31, 2015.

MOPERM uses only proprietary funds, which present financial statement information in the same manner as government-wide financial statements only with more detail. Government-wide financial statements are not presented as such information would be repetitive.

Note B – Basis of Accounting Summary of Significant Accounting Policies

Basis of Accounting

MOPERM prepares its financial statements on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles for governmental enterprise funds. These principles are similar to those for private business enterprises. Accordingly, revenues are recorded when earned and expenses when incurred.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on deposit, overnight repurchase agreements (“Investaccount-Government” securities), money market index funds (“Government Obligation Fund-Money Market”), and investments with original maturities of three months or less. All cash on deposit is insured by federal depository insurance or collateralized by securities held by the counter party financial institution’s trust department or agent in MOPERM’s name. The carrying amounts reported in the statements of net position approximate the fair value of these instruments.

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

Notes to Financial Statements - Continued

December 31, 2015

Note B – Basis of Accounting Summary of Significant Accounting Policies (Continued)

Investments

MOPERM reports investments as trading assets at fair value, with the changes in fair value reported in the statement of revenues, expenses and changes in net position. The estimated fair value of fixed maturity and equity investments is based on quoted market prices. Interest income is recorded when earned. Realized gains and losses on investments are determined using the specific identification method.

Capital Assets

Capital assets are stated at cost, less accumulated depreciation. Improvements are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred. Realized gains and losses are recognized upon disposal or retirement of the related assets and are reflected in current operations.

Depreciation is calculated on a straight-line basis over the following estimated useful lives of the respective assets:

	<u>Depreciable Life</u>
Automobiles	3 years
Computer equipment and software	3-5 years
Equipment	5 years
Furniture and fixtures and building improvements	5-10 years
Building	40 years

Equity Classifications

Net position represents the difference between assets and liabilities. MOPERM reports three categories of net position, as follows:

Net investment in capital assets - Consists of property and equipment at cost, net of accumulated depreciation.

Restricted net position - Net position is considered restricted if their use is constrained to a particular purpose. Restrictions are imposed by external organizations such as federal or state laws. MOPERM does not have restricted net position as of December 31, 2015.

Unrestricted net position - Consists of all other net position that does not meet the definition of the above two components and is available for general use by MOPERM. MOPERM considers unrestricted net position as retro return reserves. MOPERM has designated unrestricted net position for catastrophic reserves in the amount of \$37,531,369 as of December 31, 2015.

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

Notes to Financial Statements - Continued

December 31, 2015

Note B – Basis of Accounting Summary of Significant Accounting Policies (Continued)

Contributions

Contributions are recognized as revenue over their related policy period. Advance contributions represent contributions received in the current year for policies effective the following year. No unearned contribution is reflected at year-end as all policies expire on December 31.

Annual contributions are determined based on actuarial projections to produce sufficient funds to pay losses, loss adjustment expense and general and administrative expenses. If contributions do not produce sufficient funds to meet obligations, MOPERM is empowered to make special assessments. Members are jointly and severally liable for claims against MOPERM. No special assessments were made during 2015.

Accounts Receivable

Accounts receivable are recorded at net realizable value. Management has evaluated all receivable balances for collectability and determined no estimate or allowance for uncollectable accounts is necessary.

Retro Return Reserve Refunds

If collected contributions and interest income exceed the total amount of all paid claims, claim expenses, operating expenses, and the catastrophic retro return reserves allocation in any given year, the Board of Trustees may declare that a refund of the excess amount be made. The refund shall be on a pro rata basis to all participating public entities based on the contributions of the public entity for the immediately preceding year. Unless otherwise determined by the Board of Trustees, no refund will be made until all claims are closed and the appropriate statute of limitations has expired for that policy year. Refunds are recorded in the year declared.

Loss and Loss Adjustment Expense Reserves

Loss and loss adjustment expenses are charged to income as incurred. Loss and loss adjustment expense reserves represent the accumulation of estimates for reported unpaid losses including loss adjustment expenses, the effects of inflation and other societal and economic factors, plus a provision for losses incurred but not reported, and are reported net of amounts recoverable and receivable from excess loss providers. Loss adjustment expenses represent anticipated costs of settling claims, including attorneys' and adjusters' fees. The reserves for incurred but not reported loss and loss adjustment expenses are actuarially determined and based on a computation that applies varying percentages to each policy year's earned contributions, less cumulative claims paid and reported unpaid loss reserves within the statement of net position.

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

Notes to Financial Statements - Continued

December 31, 2015

Note B – Basis of Accounting Summary of Significant Accounting Policies (Continued)

Loss and Loss Adjustment Expense Reserves (Continued)

The methods for making such estimates and for establishing the resulting liability are continually reviewed by management and MOPERM's independent actuary and any adjustments are reflected in earnings.

Designated Catastrophic Reserves

The designated catastrophic reserves are funds designated by the Board of Trustees to cover catastrophic losses incurred by MOPERM for any policy year. The balances at December 31 for policy years 2006 through 2010 is equivalent to 10% of the earned contribution and 15% of the earned contribution for all policy years since MOPERM's inception minus \$1,545,447 for policy year 2002; plus any undesignated retro return reserves of a policy year that is twenty years old. The total of these reserves at December 31, 2015 is \$8,974. During 2005, the Board of Trustees approved the transfer of the catastrophic reserves for policy year 2002 to the Undesignated Retro Return Reserves. If losses in any policy year exceed total contributions and designated catastrophic reserves, additional assessments could be made to applicable members for the policy year the losses occurred.

Operating and Non-operating Income and Expenses

All revenues and expenses, except the unrealized gain or loss on investments, are considered operating. Investment income is considered operating revenue.

Income Taxes

The income earned by MOPERM is exempt from federal income tax in accordance with Section 115 of the Internal Revenue Code (IRC).

MOPERM has implemented the accounting guidance for uncertainty in income taxes using the provisions of FASB ASC 740, Income Taxes. MOPERM has concluded that there are no significant uncertain tax positions requiring disclosure. MOPERM continues to evaluate its tax exempt status in relation to FASB ASC 740.

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

Notes to Financial Statements - Continued

December 31, 2015

Note B – Basis of Accounting Summary of Significant Accounting Policies (Continued)

Management's Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Subsequent Events

MOPERM evaluates events and transactions occurring subsequent to the date of the financial statements for matters requiring recognition or disclosure in the financial statements. The accompanying financial statements consider events through March 15, 2016, which is the date the financial statements were available to be issued.

Change in Accounting Principle

Effective for the year ended December 31, 2015, MOPERM adopted GASB Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment to GASB Statement No. 27, which enhances accounting and financial reporting by state and local governments for pensions and improves information provided by the state and local governmental employers about financial support for pensions provided by other entities. With adoption, MOPERM recognized the effect of a change in accounting principle in the amount of \$959,730 for the net pension liability and the beginning of fiscal year 2015. MOPERM will now recognize a long term liability for the net pension liability in the Statement of Net Position. See Note K for additional details regarding MOPERM's retirement plan.

Note C – Deposits and Investments

Deposits

Cash balances include short-term securities and operating balances held by financial institutions. At December 31, 2015 the carrying amount of deposits at the financial institutions was (\$369,567), the bank balance was \$209,122. Of the bank balance, \$250,000 was covered by federal depository insurance at December 31, 2015.

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

Notes to Financial Statements - Continued

December 31, 2015

Note C – Deposits and Investments (Continued)

Investment Policies

MOPERM has adopted an investment policy that is reviewed and approved by the Board of Trustees. During 2015, MOPERM's Board of Trustees amended the existing investment policy to include a multi-asset class portfolio permitting Fixed Income Mutual Funds and ETFs, Equity Mutual Funds and ETFs and Alternative Asset Class Mutual Funds and ETFs of REITs and Inflation Hedging Assets.

Investment Summary

The following table presents the summary of MOPERM'S investments by type at December 31, 2015:

Cash Equivalents

Investaccount-Government	\$ 11,567,104
Government Obligation Fund-Money Market	<u>1,229,038</u>
Total Cash Equivalents	12,796,142

Fixed Income Securities

Certificate of Deposit	4,490,250
Commercial Paper	4,492,807
Corporate Notes	32,493,459
Municipal Bonds	2,008,508
U.S. Agencies	27,001,909
U.S. Treasury Notes	5,306,384
U.S. Government Guaranteed Mortgages	25,469,054
Collateralized Mortgage Obligations	727,201
Asset-Backed Securities	<u>4,152,243</u>
Total Fixed Income Securities	106,141,815

Equity Securities

Total investments	<u>5,745,013</u>
	\$ <u>124,682,970</u>

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

Notes to Financial Statements - Continued

December 31, 2015

Note C – Deposits and Investments (Continued)

The following securities are classified as cash and cash equivalents in the statement of net position; however, are disclosed as investments subject to custodial credit, concentration of credit, interest rate, and foreign currency risks.

	<u>2015</u>
Investaccount-Government	\$ 11,567,104
Government Obligation Fund-Money Market	<u>1,229,038</u>
	<u>\$ 12,796,142</u>

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, MOPERM would not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, not registered in MOPERM's name, and held by the counterparty. The Investaccount-Government was collateralized by securities delivered to a third party institution mutually agreed upon by the financial institution and MOPERM. MOPERM's other investments are not exposed to custodial credit risk.

Concentration of Credit Risk

There is potential concentration of credit risk if more than five percent (5%) of the entity's investments are with any one issuer. The following investments are considered exposed to concentration of credit risk as of December 31, 2015:

	<u>Amount</u>	<u>% of Portfolio</u>
Federal Home Loan Mortgage Corporation	\$17,142,107	15.32
Federal Home Loan Bank	15,855,078	14.17
Federal National Mortgage Association	14,340,797	12.82

Such concentrations are permitted by MOPERM's investment Policy.

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

Notes to Financial Statements - Continued

December 31, 2015

Note C – Deposits and Investments (Continued)

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Duration is a measure of a debt instrument's exposure to a change in interest rates and the related sensitivity of market price to parallel shifts in the yield curve. It uses the present value of cash flows, weighted for those cash flows as a percentage of the instrument's full price. MOPERM mitigates interest rate risk through the duration of investments outlined in its investment policy.

Foreign Currency Risk

MOPERM is not exposed to foreign currency risks.

Investment Maturity Schedule

Investments are reported at fair value. Investments that are purchased with less than 90 days maturity date are listed as "cash equivalents". As of December 31, 2015, MOPERM's investment maturities consisted of the following:

<u>December 31, 2015</u>	<u>Rating</u>	<u>Less than one year</u>	<u>One to three years</u>	<u>Three to five years</u>	<u>Five to ten years</u>	<u>More than ten years</u>	<u>Total</u>
Investaccount-Government	N/A	\$ 11,567,104	\$ -	\$ -	\$ -	\$ -	\$ 11,567,104
Money Market-Government	N/A	1,229,038	-	-	-	-	1,229,038
Asset-Backed Securities	Aaa/AAA	-	-	4,152,243	-	-	4,152,243
Certificate of Deposit	A-1	-	4,490,250	-	-	-	4,490,250
Collateralized Mortgage Obligations	Aaa/AA+	-	727,201	-	-	-	727,201
Commercial Paper	A-1	4,492,807	-	-	-	-	4,492,807
Municipal Bond	AA	-	-	2,008,508	-	-	2,008,508
U.S. Agencies	Aaa/AA+	1,000,077	7,852,005	18,149,827	-	-	27,001,909
U.S. Government Guaranteed Mortgages	Aaa/AA+	-	-	3,976,683	3,646,993	17,845,078	25,469,054
U.S. Treasury Notes	Aaa/AA+	-	-	5,306,384	-	-	5,306,384
Corporate Note	Aaa/BBB+	-	19,981,322	6,659,431	5,852,706	-	32,493,459
		\$ 18,289,026	\$ 33,050,778	\$ 40,253,376	\$ 9,499,698	\$ 17,845,078	\$ 118,937,957

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

Notes to Financial Statements - Continued

December 31, 2015

Note C – Deposits and Investments (Continued)

Gains (Losses) on Investments

Net unrealized gains (losses) on investments classified as trading assets held at the reporting date were (\$55,064) for the year ended December 31, 2015. Net realized gains (losses) on assets sold or otherwise disposed of, and included within net investment income, amounted to (\$9,631).

Note D – Capital Assets

Capital asset activity for the year ended December 31, 2015, was as follows:

<u>Category</u>	<u>Balance at December 31, 2014</u>	<u>Additions</u>	<u>Deductions/Transfers</u>	<u>Balance at December 31, 2015</u>
Capital assets, being depreciated				
Building and building improvements	\$ 1,172,339	\$ -	\$ -	\$ 1,172,339
Equipment	26,318	-	-	26,318
Furniture and fixtures	104,168		11,020	93,148
Computer equipment and software	673,788	20,048	13,000	680,836
Automobiles	31,975	-	-	31,975
Total capital assets, being depreciated	2,008,588	20,048	24,020	2,004,616
Less accumulated depreciation	873,907	(142,478)	23,185	993,200
Capital assets, net	\$ 1,134,681	\$ (122,430)	\$ 835	\$ 1,011,416

Total depreciation expense for the years ended December 31, 2015, was \$142,478.

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

Notes to Financial Statements - Continued

December 31, 2015

Note E – Loss and Loss Adjustment Expense Reserves

Activity in the loss and loss adjustment expense reserves was as follows:

	<u>2015</u>
Loss and loss adjustment expense reserves, beginning of year, net of reinsurance recoverable of \$201,060	\$ 46,295,926
Incurred loss and loss adjustment expenses:	
Provision for insured events – current year	12,280,989
Provision for insured events – prior years	<u>(101,492)</u>
Total incurred loss and loss adjustment expenses	<u>12,179,497</u>
Payments:	
Loss and loss adjustment expenses attributable to insured events – current year	4,419,805
Loss and loss adjustment expenses attributable to insured events – prior years	<u>9,246,876</u>
Total payments	<u>13,666,681</u>
Loss and loss adjustment expenses reserves, end of year, net of reinsurance recoverable of \$143,017	\$ <u>44,808,742</u>

The provision for prior year insured events represents the variations between MOPERM's estimated claims payable for prior years' claims and the actual amounts required to satisfy such claims.

Note F – General and Administrative Expenses

The most significant components of general and administrative expenses are salary, employee benefit, agent commission, and loss control services expenses. All employees administering MOPERM are employees of the State of Missouri and are covered by the Missouri State Employees' Retirement System. MOPERM reimburses the State of Missouri, a related organization, for all costs of administration, including salary costs of \$672,993 for 2015 and pension costs of \$112,576. As of December 31, 2015, payables due to the State of Missouri totaled \$124,944. The State of Missouri's other post employment benefit package is subject to the measurement and disclosure requirements of GASB 45.

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

Notes to Financial Statements - Continued

December 31, 2015

Note F – General and Administrative Expenses (Continued)

Effective during the 2008 year, the amounts paid to the State of Missouri include a contribution allocation to reimburse the State for the funding of the post-retirement health insurance liability. This liability is recognized in total by the State of Missouri. MOPERM's financial statements reflect their allocated share of funding requirement.

Agent commission expense totaled \$1,655,152 for the years ended December 31, 2015.

Note G – Retro Return Reserve Refunds

The Board of Trustees of MOPERM declared retro return reserve refunds in the amount of \$1,062,344 in 2015. As of December 31, 2015, cumulative retro return reserve refunds were as follows:

<u>Policy Year</u>	<u>Refunds Declared and Paid Prior to 2014</u>	<u>Refunds Declared and Accrued During 2015</u>	<u>Refunds total Declared</u>	<u>Percentage of Contributions Refunded</u>
1987	\$ 1,391,082	\$ -	\$ 1,391,082	85%
1988	2,074,331	-	2,074,331	76%
1989	519,031	-	519,031	23%
1990	933,499	-	933,499	45%
1991	270,627	-	270,627	12%
1992	825,298	-	825,298	28%
1993	45,879	-	45,879	1%
1994	155,373	-	155,373	3%
1995	2,543,501	258,430	2,801,931	48%
1996	1,072,308	258,160	1,330,468	21%
1997	661,259	270,664	931,923	14%
1998	269,769	138,395	408,164	6%
1999	131,876	136,695	268,571	4%
2000	140,169	-	140,169	2%
2001	167,612	-	167,612	2%
	<u>\$ 11,201,614</u>	<u>\$ 1,062,344</u>	<u>\$ 12,263,958</u>	

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

Notes to Financial Statements - Continued

December 31, 2015

Note H – Excess Insurance

MOPERM maintains excess insurance coverage with outside insurance carriers for the property program. The property excess policy for 2015 was placed with multiple carriers and they collectively provided coverage of \$200,000,000 for each occurrence, with MOPERM's retention per claim of \$100,000. For 2015, the equipment breakdown excess policy, with Zurich American Insurance Company, provides coverage of \$50,000,000 for each occurrence with no annual aggregate and MOPERM had a \$10,000 deductible per occurrence. The crime excess policy, with Travelers Casualty and Surety of America, provides coverage of \$50,000 per occurrence and MOPERM's retention per occurrence was \$5,000 with no annual aggregate for 2015.

Since July 7, 2002, MOPERM has elected not to purchase an excess insurance policy for liability coverage.

Note I – Condominium Association

On February 4, 2005, MOPERM purchased an office condominium in the Howerton Center Condominium. In conjunction with the purchase, MOPERM became a one-third member of The Howerton Center Condominium Association, Inc. (Corporation). The Corporation is a Mutual Benefit Corporation formed for the purpose of maintaining the common areas in The Howerton Center Condominium and performing all other duties set forth in the Declaration of Condominium. MOPERM previously contributed \$1,000 to the Corporation for operating funds. MOPERM is billed utilities, insurances and other expenditures by the Corporation as outlined in the Corporation's Condominium Declarations and Bylaws. MOPERM records such expenditures on the accrual basis of accounting as general and administrative expenses.

Note J – Contingencies

MOPERM is a party to a number of lawsuits arising in the normal course of business. While the results of other litigation cannot be predicted with certainty, management, based upon advice of MOPERM's counsel, believes the final outcome of the other litigation will not have a material adverse effect on MOPERM's financial position or its results of operations.

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

Notes to Financial Statements - Continued

December 31, 2015

Note K – Retirement Plan

General Information About the Pension Plan

Plan description: Benefit eligible employees of MOPERM are provided with pensions through Missouri State Employees' Plan (MSEP) – a cost-sharing multiple-employer defined benefit pension plan administered by the Missouri State Employers' Retirement System ("MOSERS"). The plans are referred to as MOSERS in the notes. Chapter 104.320 of the Revised Statutes of Missouri grants the authority to establish a defined benefit plan for eligible state and other related agency employees. MOSERS issues an annual Comprehensive Annual Financial Report (CAFR), a publicly available financial report that can be obtained at www.mosers.org.

Benefits provided: MOSERS provides retirement, disability, and life insurance benefits to eligible employees. The base retirement benefits are calculated by multiplying the employee's final average pay by a specific factor multiplied by the years of credited service. The factor is based on the specific plan in which the employee participates, which is based on the employee's hire date. Information on the three plans administered by MOSERS (MSEP, MSEP 2000, and MSEP2011 retirement plans) and how eligibility and the benefit amount is determined for each plan may be found in the Notes to the Financial Statements of MOSERS' CAFR starting on page 30.

Contributions: Per Chapter 104.436 of the Revised Statutes of Missouri, contribution requirements of the active employees and the participating employers are established and may be amended by the MOSERS Board. Employees in the MSEP2011 Plan are required to contribute 4.0 percent of their annual pay. MOPERM's required contribution rate for the measurement date of June 30, 2015, was 16.97 percent of annual payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

The contribution rate for the MOSERS plan year ended June 30, 2015 was 16.97 percent, which is the year of measurement for the net pension liability. Contributions to the pension plan from MOPERM were \$116,447 for the measurement date of June 30, 2015.

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

Notes to Financial Statements - Continued

December 31, 2015

Note K – Retirement Plan (Continued)

General Information about the Pension Plan (Continued)

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the MOSERS and additions to/deductions from MOSERS' fiduciary net position have been determined on the same basis as they are reported by MOSERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At December 31, 2015, MOPERM reported a liability of \$1,138,251 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

MOPERM's proportion of the net pension liability was based on MOPERM's actual share of contributions to the pension plan relative to the actual contributions of all participating employers for MOSERS plan year ended June 30, 2015. At June 30, 2015, MOPERM's proportion was 0.035 percent, which represents a 0.001 increase from the percentage used to allocate the liability as of June 30, 2014.

There were no changes in benefit terms during the MOSERS plan year ended June 30, 2015, that affected the measurement of total pension liability.

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

Notes to Financial Statements - Continued

December 31, 2015

Note K – Retirement Plan (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

For the year ended December 31, 2015, MOPERM recognized pension expense of \$126,179. At the measurement date of June 30, 2015, MOPERM reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	2,126	7,364
Changes of assumptions	-	15,149
Net difference between projected and actual earnings on pension plan investments	78,399	-
Changes in proportion and differences between MOPERM contributions and proportionate share of contributions	42,488	-
MOPERM contributions subsequent to the measurement date of June 30, 2015	55,419	-
Total	178,432	22,513

Contributions of \$55,419 reported as deferred outflows of resources related to pensions resulting from MOPERM contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability at the next valuation date. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in MOPERM's calendar year end December 31, 2015 following MOSERS' fiscal year as follows:

Projected Recognition of Outflows/ (Inflows)

Plan Year ending June 30:

2016	\$ (65)
2017	(198)
2018	(263)
2019	66,688
2020	-

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

Notes to Financial Statements - Continued

December 31, 2015

Note K – Retirement Plan (Continued)

Actuarial assumptions: The total pension liability in the June 30, 2015 actuarial valuation, which is also the date of measurement for GASB 68 purposes, was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Price Inflation	2.5 percent, approximate
Salary increases or wage inflation	0% for FY 2016 AND 3.0 percent annually, average, including inflation thereafter
Investment rate of return	8.0 percent per year, compounded annually, net after investment expenses and including inflation

Mortality rates were based on the RP-2000 combined healthy mortality table projected to 2016 with Scale AA. The pre-retirement mortality rates used were 100% of the post-retirement mortality rates for males and 80% of the post-retirement mortality for females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The change in assumptions recorded as deferred inflows of resources was related to a change in wage assumptions. For the June 30, 2015 valuation, wage inflation is assumed to be 0% in the first year and 3% thereafter. This is a one-time change based on the pay freeze enacted for fiscal year ending June 30, 2016. Previously salary increases were assumed to be 3.0 to 5.9% annually on average, including inflation.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2007 to June 30, 2011. As a result of the 2011 actuarial experience study, the MOSERS Board made various demographic assumption changes to more closely reflect actual experience. The most significant change was lowering the assumed annual investment rate of return from 8.5 percent to 8.0 percent. MOSERS is conducting an experience study and the results of that study are expected to be finalized prior to June 30, 2016 which will be used by the actuarial firm to conduct the valuation report for MOSERS' fiscal year 2016's valuation which impacts MOPERM's FY 2018 payroll.

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

Notes to Financial Statements - Continued

December 31, 2015

Note K – Retirement Plan (Continued)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates rates of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in MOSERS target asset allocation as of June 30, 2015 are summarized in the following table:

<u>Asset Class</u>	<u>Policy Allocation</u>	<u>Long-term Expected Real Rate of Return *</u>	<u>Weighted Average Long-Term Expected Real Rate of Return</u>
Beta Balanced	80.0%	5.7%	4.6%
Illiquids **	20.0%	7.3%	1.5%
	<hr/> 100.0%	<hr/> 6.1%	<hr/>

* Represent best estimates of geometric rates of return for each major asset class included.

** Illiquid portfolio upper limit of 27.5% of capital, no new commitments past 23%.

Discount rate: The discount rate used to measure the total pension liability was 8.0 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from employers will be made at required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

Notes to Financial Statements - Continued

December 31, 2015

Note K – Retirement Plan (Continued)

Sensitivity of the District's proportionate share of the net pension liability to changes in the discount rate: The following presents MOPERM's proportionate share of the net pension liability calculated using the discount rate of 8.0 percent, as well as what MOPERM's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.0 percent) or 1-percentage-point higher (9.0 percent) than the current rate:

	1% Decrease (7.0%)	Current Discount Rate (8.0%)	1% Increase (9.0%)
MOPERM's proportionate share of the net pension liability	\$ 1,604,143	\$ 1,138,251	\$ 746,973

Pension plan fiduciary net position: Detailed information about the pension plan's fiduciary net position is available in the separately issued MOSERS financial report.

Payable to the Pension Plan

MOPERM did not report any payables to MOSERS.

Required Supplemental Information

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

Supplemental Schedule of 2006-2015 Loss Development Information

December 31, 2015

(See Independent Auditor's Report)

The following page illustrates how MOPERM's earned revenues (net of excess insurance) and investment income compared to related costs of loss (net of loss assumed by excess insurers) and other expenses assumed by MOPERM for each of the ten years ended December 31, 2015. The rows of the table are defined as follows:

- (1) The total of each fiscal year's gross earned contribution revenues and investment revenues. Earned contribution revenue and investment revenue paid to excess insurers and earned contribution revenue and investment revenue net of the effects of excess reinsurance premiums.
- (2) Each fiscal year's other operating costs of MOPERM including overhead and claims expense not allocable to individual claims.
- (3) MOPERM's gross incurred losses and allocated loss adjustment expense, losses assumed by excess insurer and net incurred losses and allocated loss adjustment expenses (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called policy year).
- (4) The cumulative net amounts paid as of the end of successive years for each policy year.
- (5) The latest re-estimated amount of losses assumed by excess insurers as of the end of each year for each accident year.
- (6) Each policy years incurred losses increased or decreased as of the end of successive years. This annual re-estimation results from new information received on known losses, re-evaluation of existing information on known losses, as well as the emergence of new losses not previously known.
- (7) Compares the latest re-estimated net incurred losses amount to the amount originally established (line 3) and shows whether this latest estimate of loss cost are greater or less than originally thought. As data for individual policy years matures, the correlation between original estimates and re-estimated amounts is commonly used to evaluate the accuracy of incurred losses currently recognized in less mature policy years. The columns of the table show data for successive policy years.

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

Supplemental Schedule of 2006-2015 Loss Development Information, Continued

Year ended December 31, 2015

(See Independent Auditor's Report)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Fiscal year ended:										
(1) Contribution and investment revenue:										
Earned	24,528,670	25,941,702	26,430,915	22,681,440	21,232,605	19,366,692	19,309,387	20,402,355	21,779,552	21,991,334
Ceded	(1,119,915)	(1,378,279)	(1,170,558)	(1,119,946)	(1,273,174)	(1,447,161)	(1,639,866)	(1,744,482)	(1,852,432)	(1,916,934)
Net earned	23,408,755	24,563,423	25,260,357	21,561,494	19,959,431	17,919,531	17,669,521	18,657,873	19,927,120	20,074,400
(2) Unallocated expenses	3,004,756	2,995,869	3,159,917	2,624,008	2,504,618	2,366,185	2,489,258	2,669,851	2,962,782	3,051,943
Policy year ended:										
(3) Contribution refunds, cumulative	-	-	-	-	-	-	-	-	-	-
(3) Estimated incurred loss and loss adjustment expense, end of policy year:										
Incurred	15,374,073	15,169,791	16,096,860	13,351,739	12,505,206	12,233,711	10,763,247	11,666,726	12,436,173	12,955,049
Ceded	(330,067)	(210,840)	(585,795)	(398,943)	(286,666)	(753,284)	(101,048)	(308,872)	(138,327)	(674,060)
Net incurred	15,044,006	14,958,951	15,511,065	12,952,796	12,218,540	11,480,427	10,662,199	11,357,854	12,297,846	12,280,989
(4) Net paid losses (cumulative) as of:										
End of policy year	2,850,824	2,660,991	3,244,802	2,734,679	3,126,561	5,385,430	2,954,358	2,953,383	3,429,124	3,745,745
One year later	3,743,592	4,181,825	5,138,156	4,311,864	5,182,373	7,166,940	4,088,118	4,271,256	5,556,737	-
Two years later	5,263,978	7,913,383	7,013,470	5,188,008	6,541,593	10,392,180	6,657,025	6,913,884	-	-
Three years later	6,520,461	9,531,422	8,082,239	8,445,272	7,880,273	14,727,920	8,397,325	-	-	-
Four years later	7,078,303	7,710,710	8,891,913	9,114,240	8,678,272	15,693,487	-	-	-	-
Five years later	7,493,188	11,468,727	9,578,358	9,446,530	9,648,147	-	-	-	-	-
Six years later	8,105,768	11,680,022	9,791,716	10,021,237	-	-	-	-	-	-
Seven years later	8,473,122	13,445,199	9,924,396	-	-	-	-	-	-	-
Eight years later	8,379,493	13,936,081	-	-	-	-	-	-	-	-
Nine years later	8,618,128	-	-	-	-	-	-	-	-	-
(5) Re-estimated ceded loss and loss adjustment expense	(830,436)	(294,168)	(1,017,820)	(732,765)	(334,886)	(1,266,160)	(273,511)	(558,925)	(317,606)	(674,060)
(6) Re-estimated incurred loss and loss adjustment expense:										
End of policy year	15,044,006	14,958,951	15,511,065	12,952,796	12,218,540	11,174,983	10,662,199	11,357,854	12,297,846	12,280,989
One year later	14,987,767	14,926,969	15,186,111	12,798,194	12,143,246	12,396,804	10,656,543	11,255,187	12,250,430	-
Two years later	14,969,152	14,913,686	15,226,953	12,798,195	12,145,377	14,399,011	10,654,114	11,247,424	-	-
Three years later	14,968,152	14,913,686	15,226,953	12,798,194	12,145,007	14,399,011	13,932,748	-	-	-
Four years later	14,976,799	14,913,686	15,226,953	12,798,195	12,143,487	17,020,515	-	-	-	-
Five years later	14,976,799	14,913,686	15,226,953	12,798,195	12,143,487	-	-	-	-	-
Six years later	14,976,799	14,913,686	15,226,953	12,798,195	-	-	-	-	-	-
Seven years later	14,976,799	14,913,686	15,226,953	-	-	-	-	-	-	-
Eight years later	14,976,799	14,913,686	-	-	-	-	-	-	-	-
Nine years later	12,136,335	-	-	-	-	-	-	-	-	-
(7) Increase (decrease) in estimated incurred losses and loss of adjustment expenses from end of policy year	(2,907,671)	(45,265)	(284,112)	(154,601)	(75,053)	5,845,532	3,270,549	(110,430)	47,416	-

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

Reconciliation of Claims Liabilities by Type of Contract

Year ended December 31, 2015

(See Independent Auditor's Report)

The schedule below presents the changes in claims liabilities for the past two years for the fund's two types of contracts: Liability and Property

	Liability 2015	Property 2015
Loss and loss adjustment expense reserves, beginning of year	\$ 46,120,009	\$ 175,917
Incurred loss and loss adjustment expenses:		
Provision for insured events - current year	11,146,778	1,134,211
Provision for insured events - prior year	<u>(52,313)</u>	<u>(49,179)</u>
Total incurred loss and loss adjustment expenses	<u>11,094,465</u>	<u>1,085,032</u>
Payments:		
Loss and loss adjustment expenses attributable to insured	2,769,876	1,649,928
Loss and loss adjustment expenses attributable to insured	<u>9,799,187</u>	<u>(552,310)</u>
Total payments	<u>12,569,063</u>	<u>1,097,618</u>
Loss and loss adjustment expense reserves, end of year	<u>\$ 44,645,411</u>	<u>\$ 163,331</u>

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

Schedule of MOPERM's Proportionate Share of the Net Pension Liability Missouri State Employees' Retirement System

December 31, 2015

(See Independent Auditor's Report)

MOPERM's proportion of the net pension liability (asset)	.0350%
MOPERM's proportionate share of the net pension liability (asset)	\$1,138,251
MOPERM's covered-employee payroll	\$686,195
MOPERM's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	165.88%
Plan fiduciary net position as a percentage of the total pension liability	72.62 %

* Based on a measurement date and actuarial valuation as of June 30, 2015.

Note: This schedule will ultimately contain 10 years of data.

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

Schedule of MOPERM's Contributions Missouri State Employees' Retirement System December 31, 2015 (See Independent Auditor's Report)

Required contribution	\$116,447
Contributions in relation to the required contribution	\$116,447
Contribution deficiency (excess)	0
MOPERM's covered-employee payroll	686,195
Contributions as a percentage of covered-employee payroll	16.97%

* Based on a measurement date and actuarial valuation as of the end of June 30, 2015.

Note: This schedule will ultimately contain 10 years of data.

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

Changes of Benefit Terms or Assumptions Missouri State Employees' Retirement System December 31, 2015 (See Independent Auditor's Report)

Changes of benefit terms or assumptions:

Changes of benefit terms. There were no changes to benefit terms in the plan for the year ended June 30, 2015.

Changes of assumptions. There were no changes to assumptions in valuation reports for the year ended June 30, 2015, other than the assumption that there would be no pay increases for fiscal year ending June 30, 2016, only.